

# TENNESSEE REGULATORY AUTHORITY



Sara Kyle, Chairman  
Deborah Taylor Tate, Director  
Pat Miller, Director  
Ron Jones, Director

460 James Robertson Parkway  
Nashville, Tennessee 37243-0505

April 10, 2003

Mr. Harold DePriest, President and CEO  
Electric Power Board of Chattanooga  
Telecommunications  
536 Market Street  
P.O. Box 182255  
Chattanooga, Tennessee 37422-7255

03-00672

Dear Mr. DePriest:

We received the requested Internal Audit Report for 2002 on January 9, 2003 and the supplemental information in Docket No. 97-07488 on January 13, 2003. Authority Staff, however, needs additional information to verify that the reporting requirements set forth in Docket No. 97-07488 have been followed. Accordingly, EPB is requested to provide the following information as clarification to the responses that were filed earlier for the years 2000, 2001 and 2002:

1. Provide the interest rates used to calculate the interest expense for the loan from the EPB Electric Division to the EPB Telecommunications Division for each year? Explain how the rate was determined and provide all supporting calculations for determining the interest expense.
2. Explain in detail the methodology used to allocate Information Technology to the EPB Telecommunications Division in 2000 as compared to the methodology used in 2001 and 2002. Also, please identify PC costs and mainframe expense amounts for 2001 and 2002.
3. Provide pole rental rates (per pole) charged by EPB to the Telecommunications Division for 2000, 2001 and 2002 along with the number of poles in which the Telecommunications Division has attached to for 2000, 2001 and 2002. Further, provide a list of all companies or entities having pole rental agreements, joint use agreements and/or pole attachment licenses, and the amount of pole rental per pole paid under each agreement or license. Also, provide the same information for conduit rented or leased to other entities.

4. Explain how the amounts for Annual Audit and Report expenses are derived, including supporting calculations. Further, explain the difference in expense amounts for 2000 and 2001, or \$1,825 and \$24,000 respectively.
5. Provide the supporting calculations used to determine the life insurance benefits in 2000, 2001 and 2002. Include the total amount of life insurance premium, number of employees for EPB and number of employees for EPB Telecommunications.
6. Provide the supporting calculations used to determine Worker's Compensation amounts in 2000, 2001 and 2002.
7. Explain and provide calculations supporting the increase in dental insurance from 2001 to 2002. If the policy amount increased, provide policy premium amounts for 2000, 2001 and 2002.
8. Explain and provide calculations supporting the increase in pension expense from 2001 to 2002.
9. Provide the supporting calculations for the post-retirement amounts for 2000, 2001 and 2002. The data response indicated that it is based on an actuarial valuation. Explain in detail how the post-retirement amounts are allocated between the Electric Division and the Telecommunications Division (include the total company-wide amount).
10. Provide the amount of sick leave benefits for 2002, including supporting calculations.
11. Explain in detail how building rental expense is calculated and allocated to the EPB Telecommunication. Please give exact amount per square foot and all other factors used to derive the annual amounts provided.
12. Provide all supporting calculations, including each salary and wage expense by account and the number of employees, for the amount of salary & wages included in EPB's response to Data request # 8 for 2001 and 2002, \$1,620,028.24 and \$2,557,995.92 respectively. Please reference the specific location of these amounts in the Operating Expenses & Other Deductions general ledger as provided.
13. Explain in detail, including supporting calculations, the increase in salaries & wages by \$937,967 from 2001 to 2002. Please include the hiring dates of each employee for 2001 and 2002 using the employee schedules previously provided.
14. Based on the Internal Audit letter of 2001, there were minor exceptions that were noted in the allocations:

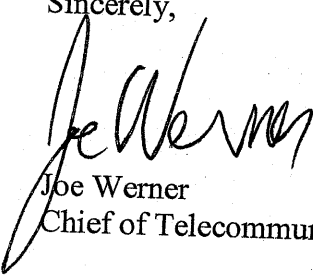
- Cost of publishing of the annual report, internal informational magazines, and newsletters are not allocated;
- The cost of processing Telecommunications customer payments by remittance Processing is not allocated; and
- The cost of processing incoming and outgoing mail for Telecommunications is not allocated.

Provide a detailed explanation, including supporting calculations, for correcting these exceptions, i.e., how has EPB allocated these costs in 2002? Provide the total company-wide amounts for these expenses in 2001 and 2002. Also include a schedule indicating where the above amounts for 2002 are included in the Data Request Response for 2002 under Reporting Requirements (e) Total costs allocated or charged back to each division.

15. Provide a schedule itemizing EPB's telecommunications plant-in-service by account, e.g., aerial cable, buried cable, switching facilities...for the years 2000, 2001 and 2002. Please identify plant installed solely for the telecommunications division and plant allocated between the electric and telecommunications division, including the method of allocation.
16. Provide supporting workpapers used in calculating depreciation expense for the telecommunications division's plant-in-service for 2000, 2001 and 2002.
17. Provide telecommunication service revenues by account for 2000, 2001 and 2002. Also, identify the amounts of joint revenue, if any, that were allocated to the telecommunications division for 2000, 2001 and 2002.
18. Provide a compliance statement concerning the Code of Conduct Audit for Year End 2002.

It is requested that this information be provided by Thursday May 1, 2003. If you have any questions concerning this request or need clarification, please call Patsy Fulton at (615) 741-2904, ext. 193, or David Foster at (615) 741-2904, ext. 188.

Sincerely,

  
Joe Werner  
Chief of Telecommunications